

## Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 SS-15 SP-02 NSC-05 CIAE-00 INR-07 EB-07  
EUR-12 /059 W

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R 110652Z JAN 77

FM USINT BAGHDAD

TO SECSTATE WASHDC 4013

INFO USDOC WASHDC

AMEMBASSY ABU DHABI

AMEMBASSY ALGIERS

AMEMBASSY AMMAN

AMEMBASSY ATHENS

AMEMBASSY CAIRO

AMEMBASSY DAMASCUS

AMEMBASSY DOHA

AMEMBASSY JIDDA

AMEMBASSY KHARTOUM

AMEMBASSY KUWAIT

AMEMBASSY LONDON

AMEMBASSY MANAMA

AMEMBASSY MOGADISCIO

AMEMBASSY MUSCAT

AMEMBASSY SANA

AMEMBASSY TRIPOLI

C O N F I D E N T I A L SECTION 1 OF 2 BAGHDAD 0068

ATHENS PLEASE PASS TO RTDO

E.O. 11652: GDS

TAGS: ETRD, IZ, PFOR

SUBJECT: IRAQ AND THE ARAB BOYCOTT OF ISRAEL

REF. (A) 76 STATE 234765 (B) 76 BAGHDAD 1745 (NOTAL)

(C) 76 BAGHDAD 1753 (NOTAL)

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1. SUMMARY. THE IRAQI GOVERNMENT APPEARS TO BE  
SUBSTANTIALLY HARDENING ITS POSITION CONCERNING THE  
ARAB BOYCOTT OF ISRAEL, APPARENTLY AS A REACTION TO  
OFFICIAL ANTI-BOYCOTT PUBLICITY FROM THE UNITED STATES.  
ALMOST ALL GOI TENDER DOCUMENTS NOW HAVE BOYCOTT  
CLAUSES, AND SOME GOI AGENCIES HAVE BEGUN TO USE AN  
OATH WHICH REQUIRES FOREIGN SUPPLIERS TO DECLARE THEY

HAVE NO RELATIONSHIP "IN ANY FORM OR MANNER" WITH ISRAEL. ONE IMPORTANT STATE COMPANY HAS REPORTEDLY ISSUED INSTRUCTIONS THAT NO PURCHASES MAY BE MADE FROM U.S. FIRMS BECAUSE THE USG MAY ATTACH POLIICALLY UNACCEPTABLE CONDITIONS TO THE CONTINUED SUPPLY OF SPARE PARTS. GOI IS ALSO REQUIRING A BOYCOTT STATEMENT FOR FOREIGN FIRMS TO QUALIFY AS SUBCONTRACTORS ON U.S.-GERMAN JOINT VENTURE OF LUMMUS-THYSSEN TO BUILD 1.1 BILLION DOLLAR PETROCHEMICAL COMPLEX. ONE SOURCE LINKS BOYCOTT PROBLEM TO LARGE DROP IN VALUE OF LETTERS OF CREDIT OPENED TO U.S. FIRMS. REPORTEDLY DECEMBER 1976 FIGURES WERE 40 PERCENT BELOW DECEMBER 1975. WE BELIEVE BOYCOTT ISSUE IS UNDERMINING U.S. POLICY OF DEVELOPMENT OF COMMERCIAL TIES AS MEANS OF IMPROVING US-IRAQI RELATIONS. END SUMMARY.

2. TENDER DOCUMENTS. BOYCOTT CLAUSES HAVE BROUGHT TO VIRTUAL HALT USINT REPORTING OF GOI TENDER CALLS. GENERALLY TENDER CALLS INCLUDE STATEMENT THAT "TENDERER SHOULD NOT IMPORT GOODS FROM COUNTRIES THAT THE REPUBLIC OF IRAQ BOYCOTTS OR (WITH) THOSE MANUFACTURING OR TRADING FIRMS IT NO LONGER DEALS." SOME GOI AGENCIES, HOWEVER, HAVE BEGUN REQUIRING FOLLOWING SEVEN POINT OATH WHICH GOES FAR BEYOND THIS PROVISION.

1. WE DO NOT HAVE A BRANCH OF OUR FIRM IN ISRAEL.
2. WE HAVE NO ASSEMBLY FACTORY IN ISRAEL EITHER DIRECTLY (OPERATED) BY US OR BY ANOTHER CONCERN ON OUR BEHALF.

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3. THERE ARE NO GENERAL AGENTS OR MANAGEMENT OFFICES REPRESENTING US FOR THE MIDDLE EAST IN ISRAEL.
4. WE DO NOT GRANT THE RIGHT TO USE OUR NAME IN ISRAEL.
5. WE HAVE NO PARTICIPATION IN ISRAELI FACTORIES OR COMPANIES IN OR OUT OF ISRAEL.
6. WE DO NOT GIVE ADVICE OR EXPERT OPINION TO ISRAELI COMPANIES.
7. WE HAVE NO OTHER RELATIONSHIP WITH ISRAEL IN ANY FORM OR MANNER".

3. OATH FIRST APPEARED IN APRIL 1976 IN NOTICE FROM IRAQI REGISTRAR OF COMPANIES CONCERNING THE REGISTRATION OF AGENCY AGREEMENTS, AND SUBSEQUENTLY THE OATH HAS BEEN ATTACHED TO TENDER CALLS OF THE STATE ORGANIZATION FOR ELECTRICITY AND THE MINISTRY OF DEFENSE.

4. IN REPLY TO MOD CIRCULAR LETTER SAYING OATH

SHOULD BE ADDED TO MOD GENERAL CONDITIONS FOR TENERERS, USINT OFFICER IN EARLY DECEMBER CALLED ON THE SECRETARY TO THE DIRECTOR OF CONTRACTS AND PURCHASING, MOD, TO DISCUSS OATH, ESPECIALLY POINT SEVEN, WHICH WOULD APPEAR TO PRECLUDE THE MOD'S PURCHASING FROM COMPANIES HAVING NORMAL EXPORT SALES TO ISRAEL. THE SECRETARY, WHO MENTIONED HE HAD CONSULTED THE MINISTER OF FOREIGN TRADE'S BOYCOTT OFFICE, SAID THAT POINT SEVEN WAS MEANT TO PRECLUDE PURCHASING FROM COMPANIES SELLING ITEMS OF STRATEGIC OR MILITARY VALUE TO ISRAEL. IF FOREIGN COMPANIES COULD NOT AGREE TO THE OATH INCLUDING POINT SEVEN, THEY SOULD SUBMIT EVIDENCE, SUCH AS COPIES OF SALES AGREEMENTS, SHOWING THE NATURE OF THEIR TRADE WITH ISRAEL. HE ALSO SAID THAT THE OATH WAS A RESULT OF AN ARAB-WIDE AGREEMENT DURING THE OCTOBER ARAB LEAGUE BOYCOTT CONFERENCE HELD IN BAGHDAD, AND THAT THE FOREIGN MINISTRY WOULD SOON ISSUE A NOTE TELLING

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ALL DIPLOMATIC MISSIONS THAT HENCEFORTH THIS OATH WOULD BE REQUIRED OF ALL FOREIGN FIRMS SELLING IN IRAQ.

5. PRINCIPAL OFFICER, DURING DECEMBER 15 CALL ON MFA DIRECTOR GENERAL FOR ECONOMIC AFFAIRS, RAISED THE MATTER OF THE OATH, POINTING OUT THAT POINT SEVEN WENT BEYOND PREVIOUS GOI IMPORT RESTRICTIONS, AND ASKED WHETHER POINT SEVEN WAS INTENDED TO PROHIBIT IRAQ'S DEALING WITH COMPANIES WHICH SELL TO ISRAEL. THE DIRECTOR GENERAL ASKED THAT WE SEND A NOTE TO THE MFA REQUESTING THIS CLARIFICATION. WE HAVE DONE SO BUT HAVE RECEIVED NO REPLY.

6. SUBCONTRACTING. FURTHER EVIDENCE OF POSSIBLE HARDENING OF IRAQ'S POSITION IS PREQUALIFICATION LIST FOR SUBCONTRACTORS WHICH LUMMUS-THYSSEN MUST SUBMIT TO STATE ORGANIZATION FOR INDUSTRIAL DESIGN AND CONSTRUCTION (SOIDC) LOCAL LUMMUS-THYSSEN REPRESENTATIVE REPORTS THAT EVEN THOUGH PROJECT IS SUPPOSEDLY EXEMPT FROM IMPORT RESTRICTIONS UNNDER IRAQI MAJOR PROJECT LAW, SOIDC IN EFFECT APPEARS TO BE WEEDING OUT FIRMS WHICH WILL NOT OR CANNOT AGREE TO COMPLY WITH ARAB BOYCOTT OF ISRAEL. LOCAL LUMMUS-THYSSEN REPRESENTATIVE REARS RESULT MAY BE MOST SUBCONTRACTS WILL GO TO EUROPEAN RATHER THAN AMERICAN SUPPLIERS.

7. AGENTS. THE IRAQI GOVERNMENT, HOWEVER, HAS SHOWN SOME FLEXIBILITY CONCERNING THE BOYCOTT REQUIEMENT IN THE ADMINISTRATION OF THE NEW AGENCY LAW AND REGULATIONS. THE GOI HAS EXEMPTED PASSENGER AIRLINE

AND AIR CARGO LINES FROM SIGNING THE SEVEN POINT OATH  
AS PART OF THE AGENCY REGISTRATION PROCESS. NONETHELESS,  
IT IS REQUIRING THE OATH FROM LAND TRANSPORT COMPANIES,  
THUS AFFECTING THOSE EUROPEAN-BASED COMPANIES WHICH  
SHIP BY LAND BOTH TO IRAQ AND TO ISRAEL.  
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AMEBASSY ABU DHABI

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AMEMBASSY MUSCAT

AMEMBASSY SANA

AMEMBASSY TRIPOLI

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8. SPARES. USUALLY RELIABLE SOURCE REPORTS THAT GOI  
IS ESPECIALLY CONCERNED ABOUT ITS ABILITY TO OBTAIN  
SPARES FOR U.S. MADE EQUIPMENT. CASE IN POINT IS TRADE

COMPLAINT OF STATE ORGANIZATION FOR OIL REFINING AND GAS INDUSTRY AGAINST AN AMERICAN COMPANY FOR REFUSING TO PROVIDE SPARE PARTS FOR DAURA REFINERY (SEE 76 BAGHDAD 1807). COMPANY HAS REFUSED TO GIVE EVEN A POSITIVE STATEMENT OF ORIGIN AND ORGANIZATION HAS REPORTEDLY ISSUED INSTRUCTIONS PROHIBITING FUTURE  
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PURCHASES OF EQUIPMENT FROM U.S. MANUFACTURERS BECAUSE OF GOI'S FEAR THAT SPARES WILL NOT BE AVAILABLE ON TERMS POLITICALLY ACCEPTABLE TO GOI.

9. LETTERS OF CREDIT. SAME SOURCE HAS LINKED BOYCOTT ISSUE TO WHAT HE REPORTS IS LARGE DROP IN VALUE OF LETTERS OF CREDIT OPENED IN FAVOR OF U.S. FIRMS. HE CLAIMS DECEMBER 1976 CNETRAL BANK STATISTICS SHOW FORTY PERCENT DROP COMPARED TO DECEMBER A YEAR AGO. THIS FIGURE COMPARES WITH A NINE PERCENT DROP IN TOTAL VALUE OF LETTERS OF CREDIT FOR IMPORTS.

10. AN OVERALL GOI STRATEGY? THE GOI MAY BE PURSUING A "CARROT AND STICK" STRATEGY IN REGARD TO THE BOYCOTT ISSUE. IN PAST TWO WEEKS, GOI HAS FOR FIRST TIME APPROVED A USDOC SPONSORED TRADE MISSION, INFORMALLY TOLD US THAT IT EXPECTS TO APPROVE THE USDOC SPONSORED EDP SALES SEMINAR SCHEDULED FOR FEBRUARY, AND SENT USINT UNSOLICITED INVITATION TO PARTICIPATE IN SECOND ANNUAL EXHIBITION OF THE UNIVERSITY OF TECHNOLOGY. WE HAVE BEEN TOLD THAT THESE ACTIONS ARE PART OF AN OVERALL GOI POLICY OF ENCOURAGING U.S. TRADE PROMOTION EVENTS, AND THAT THE U.S. WILL SOON RECEIVE INVITATION TO PARTICIPATE FOR FIRST TIME IN BAGHDAD INTERNATIONAL FAIR IN OCTOBER 1977. KICKER IS THAT AT SOME POINT U.S. FIRMS PARTICIPATING IN THESE EVENTS WILL DO BUSINESS IN IRAQ.

11. IMPLICATIONS FOR U.S. EXPORTS IN IRAQ. GIVEN THESE DEVELOPMENTS, WE DO NOT SHARE OPTIMISM IN RECENT WIRELESS FILE ARTICLE SAYING THAT "CAGNE FORESEES NO INCREASE OR DECREASE IN U.S. EXPORTS TO IRAQ, WHERE THE 1976 LEVEL OF 450 MILLION (DOLLARS) REPRESENTED A 29 PERCENT INCREASE OVER 1975..." UNLESS THE BOYCOTT PROBLEM IS SOMEHOW RESOLVED, OR AT LEAST MITIGATED, WE BELIEVE THAT U.S. EXPORTS TO IRAQ  
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WILL DROP SHARPLY IN 1977. IN ONLY A VERY FEW CASES  
IS THE U.S. IN THE BARGAINING POSITION OF BEING THE  
SOLE SOURCE FOR THE GOODS AND TECHNOLOGY THAT THE  
GOI WANTS. A DRASTIC DROP IN U.S. EXPORTS TO IRAQ  
BECAUSE OF THE BOYCOTT PROBLEM WOULD UNDERMINE U.S.  
POLICY OF USING DEVELOPMENT OF COMMERCIAL TIES AS  
THE CUTTING EDGE FOR IMPROVING US.-IRAQ RELATIONS.

12. WE WOULD APPRECIATE COMMENTS OF ADDRESSEES AS  
TO THEIR RESPECTIVE GOVERNMENT'S ATTITUDE TOWARD  
BOYCOTT PROBLEMS, AND ESPECIALLY AS TO WHETHER SEVEN  
POINT OATH QUOTED ABOVE IS APPEARING IN TENDER DOCUMENTS  
IN OTHER ARAB LEAGUE COUNTRIES PARTICIPATING IN THE  
BOYCOTT OF ISRAEL. WE NOTE THAT CAGNE IS OPTIMISTICALLY  
PREDICTING SUBSTANTIAL INCREASES IN TOTAL FUTURE EXPORTS TO  
ARAB COUNTRIES. OUR EXPERIENCE IN BAGHDAD RAISES  
CONSIDERABLE DOUBT IN OUR MINDS CONCERNING THE ACCURACY  
OF THIS PREDICTION.  
WILEY

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## Message Attributes

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